

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 SAM-01 SAB-01 IO-10 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 DODE-00

PA-01 PRS-01 /116 W

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R 191208Z AUG 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5949

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY TEHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY BEIRUT

AMEMBASSY PARIS

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E.O. 11652: NA

TAGS: EGEN EFIN EG EAID

SUBJECT: EGYPTIAN DEBT REPAYMENT AND POLICY

BEGIN UNCLASSIFIED

1. IN A FRONT PAGE ARTICLE ON AUGUST 15, AL AHRAM ECONOMIC  
EDITOR SAID, WITHOUT CITING SOURCE, THAT DURING LAST 4 MONTHS  
EGYPT HAS SETTLED DEBTS TOTALLING \$1,184 MILLION. PAYMENTS WERE  
FOR COMMERCIAL BANK FACILITIES, SUPPLIER CREDITS, PAYMENTS TO  
INTERNATIONAL ORGANIZATIONS, "EXPENDITURES FOR INVISIBLES" AND  
VARIOUS OTHER EXPENSES. EDITOR CONCLUDED THAT THESE

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OBLIGATIONS WERE COVERED BY LOANS EXTENDED BY "SOME ARAB  
NATIONS".

2. A PORTION OF ARTICLE ATTRIBUTED TO MINFIN ABU ISMAIL  
OUTLINED EXTERNAL FINANCIAL POLICY FOR REMAINDER OF YEAR AS  
FOLLOWS:

A. SUFFICIENT CASH BALANCES WILL BE SET ASIDE, IN ADDITION TO  
CONCESSIONARY LOANS, OTHER ASSISTANCE FROM FRIENDLY COUNTRIES,  
AND PROCEEDS FROM VISIBLE EXPORTS, TO COVER EGYPTIAN NEEDS UNTIL  
END OF 1975.

B. IN LANGUAGE THAT IS NOT CLEAR, FINMIN INDICATED THAT DECISION  
HAD BEEN MADE TO LIMIT RENEWAL OF COMMERCIAL BANKING  
FACILITIES EXTENDED FROM ABROAD TO 75 PERCENT OF THEIR FORMER  
LEVEL.

C. CITING CURRENT NEGOTIATIONS WITH USSR HE INDICATED THAT  
EGYPT IS ATTEMPTING TO PROLONG THE GRACE PERIOD OF LOANS, I.E.  
"POSTPONING DEBT SETTLEMENT TO FUTURE YEARS WHEN TAKE-OFF OF  
EGYPTIAN ECONOMY WILL BE REALIZED". END UNCLASSIFIED  
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3. COMMENT: JUDGING FROM PAYMENT CATEGORIES CITED, AL  
AHRAM HAS SUMMARIZED TRANSACTIONS UNDER "CASH PAYMENT"  
SECTION OF FOREIGN EXCHANGE BUDGET OVER PAST 4 MONTHS, COMING  
UP WITH A NUMBER CONVENIENTLY CLOSE TO \$1.1 BILLION AD HOC  
AID EXTENDED DURING LAST SEVERAL MONTHS BY SAUDI ARABIA AND  
KUWAIT. ACCORDING TO WEEKLY STATEMENT OF CENTRAL BANK, FIRST  
INSTALLMENT OF NEW SAUDI/KUWAITI AID WAS NOT DEPOSITED UNTIL  
JULY 3 AND SOME OF IT UNDOUBTEDLY HAS BEEN USED TO BUILD UP  
RESERVE FUND CITED ABOVE. MOST RECENT FIGURE WE HAVE ON  
EGYPTIAN SHORT TERM LIABILITIES IS LE 910 MILLION (ABOUT \$2.3  
BILLION). THIS FIGURE WAS USED BY ABU ISMAIL IN CONVERSATION  
WITH CONLOFF ON AUGUST 10. THIS SUGGESTS THAT AT LEAST \$400  
MILLION OF ARAB AID WAS USED TO REDUCE TOTAL SHORT TERM  
OBLIGATIONS FROM \$2.7 BILLION PEAK CITED BY IBRD FOR END  
OF 1974.

4. ON SUBJECT OF GRACE PERIOD PROLONGATION, SOVIET CASE WAS  
NOTABLY POOR EXAMPLE SINCE ALL INDICATIONS ARE THAT NEGOTIATIONS  
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GOING BADLY FOR EGYPTIANS. IS IT NOT IMPOSSIBLE THAT NEW DONORS  
WILL FOLLOW SAUDI/KUWAITI EXAMPLE AND PROVIDE LONG GRACE  
PERIODS, BUT ON OTHER HAND, ARAB TERMS HAVE STIFFENED COMPARED  
TO OUTRIGHT GRANTS OF OTHER YEARS.

5. IT IS VERY DIFFICULT TO GUESS MEANING OF 75 PERCENT REDUCTION IN  
SHORT TERM CREDIT OBLIGATIONS. FOREIGN EXCHANGE BUDGET RECENTLY  
PROVIDED BY DEPT PROJECTS A \$400 MILLION INCREASE IN 1975 OVER  
1974 YEAREND FIGURE. IBRD RECOMMENDS A REDUCTION AT YEAR-  
END TO 2.3 BILLION, OR NO INCREASE OVER PRESENT LEVEL. A 25 PERCENT

REDUCTION FROM THE 1974 YEarend LEVEL WOULD REQUIRE A \$300 MILLION CUT BY END OF 1975. IT IS NOT CLEAR WHERE REQUISITE CASH WILL COME FROM, BUT WITH INTEREST RATES RUNNING AS HIGH AS 27 PERCENT ON SHORT TERM CREDIT IT IS HEARTENING TO NOTE IN PUBLIC PRONOUNCEMENTS THAT FINANCE MINISTER'S INTENTIONS ARE GOOD. SO FAR EGYPT PROBABLY HAS PAID OFF SOME OF ITS MOST GREVIOUS SHORT TERM OBLIGATIONS (IN TERMS OF INTEREST RATES).

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## Message Attributes

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